

Press Release

Birin Spinning Mills Limited

25 May, 2018

Rating Reaffirmed



| | |
|------------------------------------|-----------------------------------|
| Total Bank Facilities Rated | Rs23.00 crore |
| Long Term Rating | SMERA BB-/ Stable (Reaffirmed) |

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed a long term rating of '**SMERA BB-' (read as SMERA BB-)** on the Rs.23.00 crore bank facilities of Birin Spinning Mills Limited. The outlook is 'Stable'.

Birin Spinning Mills Limited (BSML) is a Coimbatore based company, incorporated in the year 2005 and is promoted by Mr. Rangasamy. It is engaged in the manufacturing and sale of compact yarn of count ranging from 30s to 60s with the spindle capacity of 14,400. Currently it is producing 2,900 tons per annum.

List of key rating drivers

Strengths:

Experienced management and revenue growth

The promoters of the company Mr. D Rangaswamy and Mr. Avinashilingam possess more than a decade of experience in the textile industry. They are actively participating in the day-to-day business affairs of BSML which is reflected in revenue growth at compound annual growth rate (CAGR) of 15.9 percent to Rs.54.54 crore (provisional) in FY2018 (refers to financial year, April 1st to March 31st) from Rs.40.61 crore in FY2016. Growth in revenues is attributed to increase in orders from vintage clients as the company started manufacturing compact yarn in FY2018. Operating margins were around 9 percent for the last three years through FY2018. Further, margins were expected to improve in the medium term as the company is planning to modernize its machines, which will decrease in the labour cost and production cost. SMERA believes that Promoters' experience in the industry and timely investment is expected to help the company in improving its business risk profile over the medium term.

Comfortable working capital cycle

Working capital cycle of the company is comfortable from the last three years through FY2018. Gross current assets stood at 113-117 days during FY2016-FY2018. The company gives credit of around 25 days to its customers and the same is reflected in debtor days of around 8-20 days from the last three years under review. Further, the company maintains inventory of three months in order to not to fall shortage of raw materials. Average working capital limit utilization is around 90 percent for the last six months through March, 2018. SMERA believes that the working capital cycle is expected to be at similar levels, as the revenue growth is expected to be about 10 per cent per annum over the medium term.

Weaknesses

Below-average financial risk profile

Financial risk profile of the BSML is below-average as reflected in high gearing (Debt to Equity ratio) and total outside liabilities to total network (TOL/TNW). Its gearing is high at 3.15 times as on 31 March, 2018 (provisional) against the earlier estimate of 2.55 times. High gearing is on account of low net

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worth, and high dependence on external funds to fund its capital expenditure and working capital. As on 31 March, 2018 net worth is at Rs.6.58 crores (provisional), and total debt is at Rs.20.74 crores. Total outside liabilities to Total Net worth (TOL/TNW) is high at 3.72 times in FY2018. BSML is proposing a moderate capex of about Rs.5.89 crores for modernisation of its plant which is majorly debt-funded is expected to put pressure on the gearing; though the company is generating moderate cash accruals in the range of Rs.2.0 crores to Rs.2.7 crores over the medium term, however the repayment obligations of about Rs.1.1 crore per annum and increasing working capital requirements are expected to keep the financial risk profile below-average. Debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratios (DSCR) are moderate at 1.97 times 1.46 times in FY2018 respectively. SMERA believes that, financial risk profile is expected to be below-average on account of moderate scale of operations and large debt.

Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. SMERA believes that BSML should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established relationship with suppliers. Further the margins are likely to be sustained in the near future with the introduction of compact yarn which yields relatively better margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Birin Spinning Mills Limited to arrive at the rating.

Outlook - Stable

SMERA believes that the BSML will maintain stable outlook in the medium term on account of the established presence and extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of higher than debt-funded capital expenditure or stabilization issues of new machinery, resulting in poor realisations and accruals leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 54.54 | 45.28 | 40.61 |
| EBITDA | Rs. Cr. | 4.80 | 4.16 | 3.82 |
| PAT | Rs. Cr. | 0.25 | 0.13 | 0.09 |
| EBITDA Margin | (%) | 8.80 | 9.19 | 9.41 |
| PAT Margin | (%) | 0.46 | 0.30 | 0.22 |
| ROCE | (%) | 11.78 | 10.06 | 8.49 |
| Total Debt/Tangible Net Worth | Times | 3.15 | 3.23 | 2.88 |
| PBDIT/Interest | Times | 1.70 | 1.78 | 2.00 |
| Total Debt/PBDIT | Times | 4.25 | 4.80 | 4.26 |
| Gross Current Assets (Days) | Days | 117 | 113 | 105 |

Applicable Criteria

- Manufacturing entities-<https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-deafault.htm>

- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|--------------|---------------------------------|-----------|------------------|--------------------|
| 20 Mar, 2017 | Cash Credit | Long Term | 8.00 | SMERA BB- / Stable |
| | Secured Overdraft | Long Term | 10.00 | SMERA BB- / Stable |
| | Term Loan | Long Term | 5.00 | SMERA BB- / Stable |

***Annexure – Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 8.00 | SMERA BB- / Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA BB- / Stable (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA BB- / Stable (Reaffirmed) |

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ABOUT SMERA

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